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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

June 23, 2003

IN RE:

NASHVILLE GAS COMPANY, a Division of
PIEDMONT NATURAL GAS COMPANY
WEATHER NORMALIZATION ADJ. (WNA) AUDIT)
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Docket No. 03-00372

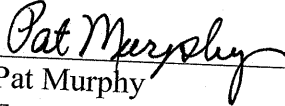
**NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the Nashville Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Nashville Gas Company (the "Company").
2. The Company's WNA filings were received on November 1, 2002, through March 31, 2003, and the Staff completed its audit of same on May 28, 2003.
3. On June 3, 2003, the Energy and Water Division notified the Company that no findings resulted from said audit.
4. The final WNA audit report (the "Report") is attached hereto as Exhibit A and is fully incorporated herein by this reference.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same.

Respectfully Submitted:



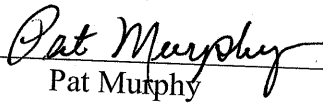
Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 23rd day of June 2003, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

David R. Carpenter
Manager – Regulatory Projects
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, North Carolina 28233


Pat Murphy

COMPLIANCE AUDIT REPORT

OF

NASHVILLE GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 03-00372

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

JUNE 2003

EXHIBIT A

COMPLIANCE AUDIT
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 03-00372

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COMPLIANCE AUDIT
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

I. INTRODUCTION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Nashville Gas Company (hereafter "Nashville Gas" or the "Company"), a division of Piedmont Natural Gas Company. The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2002 and March 31, 2003. As a result of the WNA Rider, the Company refunded a net \$2,415,614 and \$1,399,730 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V.

The Staff's audit results showed no findings for the audit period under review. Therefore, the Staff concludes that the Company is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis: 1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days; 2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and 3) the Company's calculation of the WNA factor to Staff's calculation.

Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit.

III. BACKGROUND INFORMATION ON NASHVILLE GAS COMPANY

Nashville Gas Company, with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company, which has its headquarters at 1915 Rexford Road, Charlotte, North Carolina. NGC is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from producers and marketers and transported to Nashville's city gate through the interstate transmission facilities of Tennessee Gas Pipeline (TGP), Columbia Gas Transmission Corporation (CGTC), and Texas Eastern Gas Pipeline (TETCO).

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority (hereafter "TRA" or the "Authority"), formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment (WNA) Rider to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). In its June 21, 1994 order, the TRA adopted the WNA Rider as a permanent rule, to be applied November through March of each year for Nashville Gas Company.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

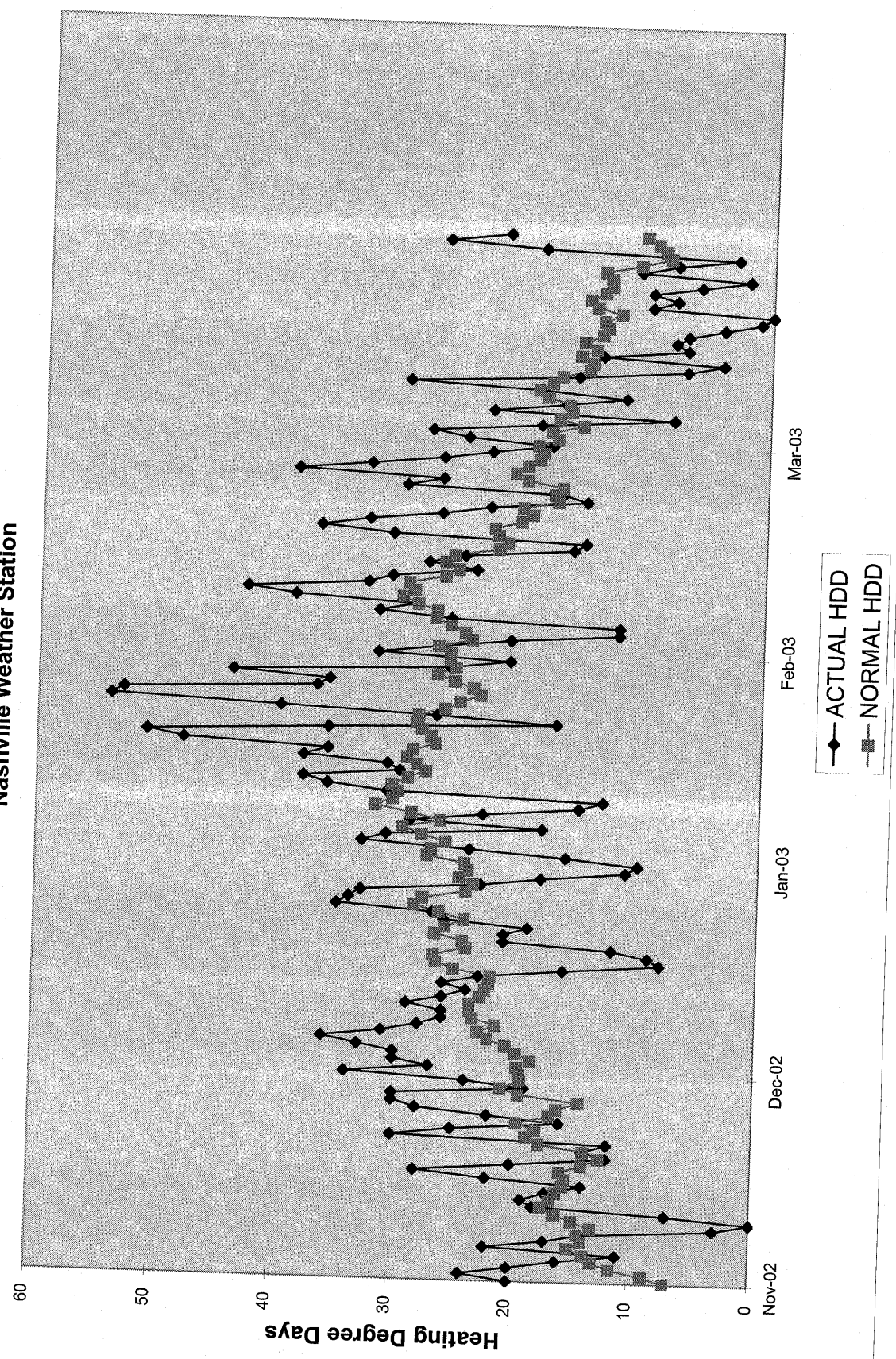
- 1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- 2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved a WNA mechanism to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit (refund) on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

The graph (found at the end of this section) compares the actual heating degree days to normal heating degree days for Nashville Gas during the 2002 - 2003 heating season. It shows that in all months, except March, the weather (overall) was colder than normal, resulting in a net refund to Nashville Gas customers for the period. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
November 2002	554	459	Colder
December 2002	752	732	Colder
January 2003	991	856	Colder
February 2003	748	651	Colder
March 2003	393	459	Warmer
Total	3,438	3,157	Colder

Nashville Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station



V. IMPACT OF WNA RIDER

Since the overall weather during the November 1, 2002 through March 31, 2003 period was colder than normal, the net impact of the WNA Rider was that residential and commercial customers were **refunded** \$2,415,614 and \$1,399,730 respectively. This equates to decreases in revenues from residential and commercial sales of 2.72% and 2.78% respectively. (See Table 1) This is a decrease from the previous year when the residential and commercial customers were **surcharged** \$2,241,280 and \$1,324,668 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 1, 2002 - March 31, 2003

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenue</u>
Residential Sales	\$ -2,415,614	\$ 88,717,219	2.72%
Commercial Sales	<u>-1,399,730</u>	<u>50,303,804</u>	2.78%
Total	<u>\$ -3,815,344</u>	<u>\$ 139,020,733</u>	2.74%

Table 2

Amount Surcharged (Refunded) 2000 - 2003

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
11/00-3/01	\$ -2,329,914	\$ -1,660,675	\$ -3,990,589
11/01-3/02	2,241,280	1,324,668	3,565,948
11/02-3/03	<u>-2,415,614</u>	<u>-1,399,730</u>	<u>-3,815,344</u>
Total	<u>\$ -2,504,248</u>	<u>\$ -1,735,737</u>	<u>\$ -4,239,985</u>

VI. WNA FINDINGS AND CONCLUSIONS

As noted in Section I of this report, Staff had no findings for the audit of the period November 2002 through March 2003.